

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

ACCOUNTING SUPPORT FOR PREPARATION OF JOINT CHIEFS OF STAFF FINANCIAL STATEMENTS

Report No. 96-083

March 12, 1996

Department of Defense

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Acronyms

DAO/WHS	Defense Accounting Office, Washington Headquarters Services
DFAS	Defense Finance and Accounting Service
JCS	Joint Chiefs of Staff
RDT&E	Research, Development, Test and Evaluation
WAAS	Washington Headquarters Services Allotment Accounting System



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Report No. 96-083

March 12, 1996

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, JOINT STAFF

SUBJECT: Audit of Accounting Support for Preparation of Joint Chiefs of Staff
Financial Statements (Project No. 5RF-6010.11)

Introduction

The audit was performed as part of the Research for Audits of Defense Agencies' Financial Statements (Project No. 5RF-6010). The Chief Financial Officers Act of 1990 (Public Law 101-576) established requirements for certain Federal organizations to submit to the Director, Office of Management and Budget, audited financial statements to include an overall financial statement for the DoD. Public Law 103-356, "The Federal Financial Management Act of 1994," requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. The consolidated DoD financial statements for FY 1996 will include the financial statements for the Joint Chiefs of Staff (JCS). For FY 1994, the JCS received \$524 million in appropriated funding.

DoD Financial Management Guidance. DoD Directive 7000.14-R, "Financial Management Regulation," volume 1, chapter 3, May 1993, requires that full financial disclosure and adequate financial information be in financial reports submitted to DoD managers and other Government officials. DoD Directive 7000.14-R, volume 1, chapter 2, May 1993, states that general ledger accounts shall be the source of required budget execution reports and annual financial statements submitted to the Department of the Treasury.

The DoD Deputy Chief Financial Officer notified DoD Components in a June 6, 1995, memorandum of the FY 1996 financial statement reporting requirements. The June 6, 1995, memorandum identified the Director, Joint Staff, as the Secretary of Defense Principal Staff Assistant responsible for the JCS financial statements. The JCS is responsible for its annual financial statements. A June 25, 1995, memorandum from the Deputy Director for Accounting Operations, Defense Finance and Accounting Service (DFAS), stipulated a requirement for all DoD Components to prepare and submit monthly trial balances to the DFAS, Indianapolis Center.

Preparation of JCS Financial Statements. The Defense Finance and Accounting Service-Denver, Defense Accounting Office, Washington Headquarters Services (DAO/WHS), is responsible for providing accounting and disbursing support to JCS. The DAO/WHS and the DFAS Indianapolis Center jointly prepared the FY 1994 JCS financial statements.

Audit Results

The FY 1994 JCS financial statements, prepared by the DAO/WHS, were inaccurate. The DAO/WHS reported JCS Research, Development, Test and Evaluation (RDT&E) funds to the DFAS Indianapolis Center on two separate financial statements, resulting in an overstatement of JCS assets of about \$48 million. In addition, to determine equity for the FY 1994 JCS financial statements, the DAO/WHS calculated equity amounts using information from budget execution reports instead of using proprietary general ledger account information. The budget execution reports did not contain the information needed to prepare complete and accurate FY 1994 financial statements. Further, there was no documentation to support \$132 million in disbursements and \$71.5 million in obligations.

We are not making recommendations in this report because recommendations in prior audit reports, Office of the Inspector General, DoD, Report No. 95-231, "Vendor Payments-Defense Accounting Office, Air Force District of Washington, Finance Washington"; and Office of the Inspector General, DoD, Report No. 96-048, "Defense Accounting Office, Washington Headquarters Services Procedures for Preparing FY 1994 Financial Statements for the Advanced Research Projects Agency," should remedy the deficiencies discussed in this report.

Audit Objectives

The audit objective was to evaluate the FY 1995 DFAS, DAO/WHS, and JCS management control programs and compliance with laws and regulations pertaining to the preparation of general-purpose financial statements.

Scope and Methodology

Scope and Methodology. We reviewed financial information produced by the Washington Headquarters Services Allotment Accounting System (WAAS) as of September 30, 1994. We were unable to review any portion of the FY 1995 JCS trial balance because the WAAS manager could not generate a trial balance for only part of the year. We reviewed JCS management controls pertaining to the DAO/WHS preparation of JCS financial statements. We also reviewed:

- o funds control exception reports pertaining to FY 1994 transactions as they related to the FY 1994 general ledger accounts as reflected in the JCS trial balance,
- o the records supporting transaction documents for four general ledger accounts, and
- o the JCS portion of the Standard Form 220, "Report on Financial Position," submitted to the Department of the Treasury.

Audit Period, Standards, and Locations. This financial-related audit was performed from June 1, through November 29, 1995, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary. We reviewed computer-processed accounting information in the WAAS for the period October 1, 1993 through September 30, 1994. We reviewed both FY 1994 Standard Form 220 reports submitted by the DAO/WHS to DFAS Indianapolis Center, which indicated that JCS had RDT&E assets totaling \$48 million that had been inappropriately reported on both Standard Forms 220, resulting in a \$48 million overstatement of JCS assets. We tested the adequacy of supporting documentation for four accounts and determined that the data base was unreliable because of incomplete supporting documentation. The audit was performed at the DAO/WHS and at JCS. We did not use statistical sampling procedures for this audit. Enclosure 2 lists the organizations visited or contacted.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD managers to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of those controls.

Scope of Review of the Management Control Program. We evaluated the management controls applicable to the preparation of JCS financial statements. We determined that JCS has an informal system for monitoring commitments, obligations, and disbursements and has reviewed and analyzed individual posting transactions since the third quarter of FY 1995. During the audit, we discussed with the Chief of the Financial Management Division, JCS, the need for management controls related to maintenance of general ledger accounts used in preparing financial statements. The Chief of the Financial Management Division agreed to initiate a system of monthly reviews of the financial information that will comprise the annual financial statements and an annual review of the JCS financial statements prepared by the DFAS Indianapolis Center.

Adequacy of Management Controls. The JCS had a system of reviews of budgetary information in its revised management control program. As a result of our audit, JCS initiated management controls to ensure the review of and feedback on proprietary information that the DFAS Indianapolis Center will use as the basis for future financial statements.

Two prior Inspector General, DoD, reports cited management control deficiencies at the DAO/WHS. The DAO/WHS and the DFAS Denver Center were correcting the deficiencies, and the corrective actions planned or taken should remedy the problems found in the FY 1994 JCS financial statements. A copy of this final report will be sent to the DFAS senior management control official.

Prior Audits and Other Reviews

Three Inspector General, DoD, audit reports cite management control deficiencies related to the DAO/WHS and are summarized below.

Inspector General, DoD, Audit Report No. 96-068, "Accounting Support for Preparation of Ballistic Missile Defense Organization Financial Statements," February 9, 1996. The report states that the FY 1994 Ballistic Missile Defense Organization financial statements prepared by the DAO/WHS were inaccurate and incomplete. The DAO/WHS overstated Ballistic Missile Defense Organization asset, liability, and equity accounts. The errors and omissions in the 12 Ballistic Missile Defense Organization accounts totaled about \$1.9 billion. No recommendations were made in the report because recommendations in prior audit reports, Office of the Inspector General, DoD, Report Nos. 96-048 and 95-231 should remedy the deficiencies discussed in the report.

Inspector General, DoD, Audit Report No. 96-048, "Defense Accounting Office, Washington Headquarters Services Procedures for Preparing FY 1994 Financial Statements for the Advanced Research Projects Agency," December 19, 1995. The report states that DAO/WHS had not implemented DoD financial management directives and related guidance for preparing Advanced Research Projects Agency financial statements. The DAO/WHS improperly prepared consolidated financial statements for the Advanced Research Projects Agency using budget execution reports instead of proprietary trial balances. Consequently, the financial statements overstated the Advanced Research Projects Agency's financial position by \$2.2 billion in assets, \$25 million in liabilities, and \$2.2 billion in equity. The report recommends that the DAO/WHS establish procedures to verify that the Advanced Research Projects Agency financial statements for FY 1996 and subsequent years are accurately prepared in accordance with DoD Directive 7000.14-R, chapter 94, October 1983. In addition, the report recommends that DFAS train DAO/WHS employees to properly and accurately prepare general-purpose financial statements. The Deputy Director for Finance, DFAS, agreed with the recommendations for improving the financial statement preparations processes.

Inspector General, DoD, Audit Report No. 95-231, "Vendor Payments-Defense Accounting Office, Air Force District of Washington, Finance Washington," June 12, 1995. The report discusses the adequacy of DAO/WHS procedures for preventing duplicate and erroneous payments and for detecting and correcting such payments. The report concludes that DAO procedures for preventing improper payments were inadequate. The DAO/WHS made either incorrect or improper payments, improperly certified vouchers, did not update the accounting system in a timely manner, and did not maintain proper supporting documents for obligations, accruals, and disbursements. In addition, DAO/WHS did not use exception reports that identified accounting errors, did not consistently certify fund availability, and did not implement a management control program.

The Deputy Director for Finance, DFAS, agreed to improve accounting procedures, recoup duplicative payments, and maintain proper supporting documentation for accounting transactions. The Deputy Director also agreed to implement a management control program and to include an evaluation of the DAO/WHS operations in the FY 1995 Annual Statement of Assurance for the Defense Accounting Office, Air Force District of Washington.

Audit Background

The Joint Chiefs of Staff. The mission of the JCS is to function as the principal military advisers to the President, the National Security Council, and Secretary of Defense. The Chairman of the JCS functions as the principal military adviser, while the remainder of the Joint Chiefs serve as military advisers who submit their advice when they disagree with the Chairman or when requested by the President, the National Security Council, or the Secretary of Defense. The JCS is authorized 1,627 personnel to manage, direct, and execute the 7 programs supported by the JCS. Appropriations for FY 1994 totaled \$524 million. The majority of that funding was for Operation and Maintenance (\$463 million or 88 percent of the total). The remainder of the funds was divided among the following appropriations: Procurement (8.4 percent); RDT&E (2.2 percent); and Military Construction (1.1 percent). The JCS relies on DFAS for accounting support to include the preparation of financial statements.

JCS Financial Management. The JCS has five budget analysts assigned to the Financial Management Division who monitor and compare budget-related information received from DAO/WHS each month. The budget analysts review the commitment, obligation, and disbursement information for accuracy and attempt to reconcile any discrepancies with DAO/WHS.

Establishment of the Defense Accounting Office, Washington Headquarters Services. On March 7, 1993, the DFAS Denver Center capitalized part of the Washington Headquarters Services Directorate for Budget and Finance as the DAO/WHS. The DFAS decided to continue to use the WAAS to provide accounting and reporting support. Responsibility for the DAO/WHS was assigned to the Defense Accounting Office, Air Force District of Washington, Bolling Air Force Base. On May 1, 1995, the operational command and control of the Defense Accounting Office, Air Force District of Washington, Finance Washington, transferred to the DFAS Denver Center. The DAO/WHS continued to use the WAAS to provide accounting support for the Defense agencies that the DAO/WHS supported. The DAO/WHS financial reporting function transfers to DFAS Indianapolis Center effective June 6, 1996.

Management of the Washington Headquarters Services Allotment Accounting System. The WAAS is managed and supported by Washington Headquarters Services. The primary purpose of the WAAS is to provide a means of building, storing, and maintaining historical transaction files for DoD Components. The Washington Headquarters Services has trained DAO/WHS personnel on the operation and use of WAAS with the expectation that the DAO/WHS could operate the system independently.

Discussion

Reporting of JCS RDT&E Funds. The FY 1994 financial statements that DAO/WHS prepared for JCS overstated JCS assets and equity because DAO/WHS personnel double reported RDT&E funds for JCS by reporting RDT&E on two financial statements, one for RDT&E and one for Other Appropriations. The financial statement for Other Appropriations includes Operation and Maintenance, Procurement, and Military Construction. In addition, equity accounts were unsupported. The DAO/WHS inserted unsupported figures in equity accounts in order to balance the financial statements because the assets did not equal liabilities plus equity.

The DAO/WHS and DFAS lacked the management controls for the preparation and review of financial statements to preclude double reporting of RDT&E funds and inserting unsupported figures to balance the JCS financial statements.

Double Reporting of JCS Asset Account. The DAO/WHS overstated by \$48 million the JCS Fund Balance with Treasury (asset) account on the September 1994 Standard Form 220, "Report on Financial Position." The overstatement occurred because the DAO/WHS improperly included RDT&E funds in the Standard Form 220 for Other Appropriations while the same amount was also included on the RDT&E Standard Form 220.

Documentation Supporting Financial Account Transactions. The DAO/WHS did not have the supporting documentation needed for the transactions involving financial statement accounts. Entire document files and individual documents were missing from supporting documentation account files. For example, DAO/WHS did not have supporting documentation for \$132.2 million in disbursements, \$71.5 million in obligations, and \$1.3 million in commitments that were posted to three general ledger accounts. As a result of the lack of an adequate audit trail, incorrect or improper payments and potential violations of fiscal statutes could go undetected. Detailed descriptions of missing documents are in Enclosure 1. Lack of supporting documentation for financial transactions was also reported in Inspector General, DoD, Report No. 95-231.

Management Comments

We provided a draft of this report to you on January 30, 1996. Because the report contains no findings or recommendations, comments were not required, and none were received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to our staff. If you have any questions on this audit, please contact Mr. Harlan M. Geyer, Audit Program Director, at (703) 604-9594 (DSN 664-9594) or Mr. Charles J. Richardson, Audit Project Manager, at (703) 604-9582 (DSN 664-9582). The distribution of this report is listed in Enclosure 3. Audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Enclosures

Missing Documentation for General Ledger Accounting Transactions

<u>General Ledger Account</u>	<u>Posting Document Number</u>	<u>Missing Commitment Documents¹</u>	<u>Missing Obligation Documents²</u>	<u>Missing Disbursement Documents³</u>
4811	AM40023		\$70,728,000	\$126,282,154
4811	AM30155			4,472,058
4811	AC26034			227,096
4811	AC30523		159,000	31,066
6120	AL40033	\$ 2,062		2,062
6120	AM30059	88,000	156	80,622
6121	AL40024	<u>1,191,205</u>	<u>600,000</u>	<u>1,137,129</u>
Total		\$1,281,267	\$71,487,156	\$132,232,187

¹Amount shown is the value of the missing commitment documents.

²Amount shown is the value of the missing obligation documents.

³Amount shown is the value of the missing disbursement documents.

Organizations Visited or Contacted

Office of the Secretary of Defense

Joint Staff, Washington, DC

Other Defense Organizations

Defense Finance and Accounting Service Denver Center, Denver, CO

Defense Accounting Office, Washington Headquarters Services, Arlington, VA

Defense Finance and Accounting Service Indianapolis Center, Indianapolis, IN

Washington Headquarters Services, Arlington, VA

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House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

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